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PACIFIC ENTERPRISES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1971





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AUDITORS' REPORT

To the Shareholders of
Pacific Enterprises Ltd.:

We have examined the consolidated balance sheet of Pacific Enterprises Ltd. as at September 30, 1971 and the consolidated statements of income, surplus and decrease in cash and marketable securities for the year then ended. Our examination of the financial statements of Pacific Enterprises Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the decrease in cash and marketable securities for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the basis of accounting for depreciation explained in note 3, were applied on a basis consistent with that of the preceding year.

Vancouver, Canada,
November 18, 1971.

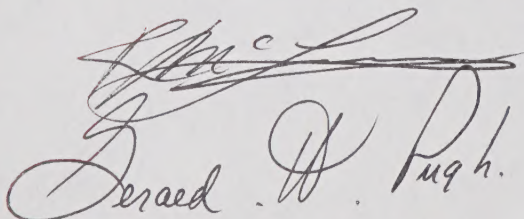
Clarkson, Gordon & Co.,
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PACIFIC ENTERPRISE
(Incorporated under the laws of the State of California)
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1971
(with comparative figures for 1970)

<u>A S S E T S</u>		<u>1971</u>	<u>1970</u>
Cash		\$ 3,872	\$ 122,359
Marketable securities (note 1)		8,253	131,655
Accounts receivable -			
Long-term real estate mortgages and agreements receivable by instalments	1,210,003		
Other	<u>377,066</u>	1,587,069	1,852,380
Income taxes recoverable		8,935	
Prepaid expenses		11,733	12,737
Property held for development (note 2):			
Land - at cost	669,954		
Deferred organization and development costs	<u>220,392</u>	890,346	776,870
Fixed (note 3):			
Buildings - at cost	710,192		
Equipment - at cost	<u>38,948</u>		
	749,140		
Less accumulated depreciation	<u>26,617</u>		
	722,523		
Land - at cost	<u>240,304</u>		
		962,827	301,480
Deferred income tax charges			1,360
Excess of cost of shares in subsidiaries over underlying net book values at dates of acquisition		451,884	523,569
Incorporation expenses - at cost		<u>3,001</u>	<u>10,295</u>
		<u>\$3,927,920</u>	<u>\$3,732,705</u>

On behalf of the Board:


Gerald W. Pugh.

Director

Director

(See accompanying notes)

STATEMENT 1

PRISES LTD.

(of British Columbia)

COMPANIES

BALANCE SHEET

0, 1971

at September 30, 1970)

LIABILITIES

	<u>1971</u>	<u>1970</u>
Bank indebtedness (note 4)	\$ 308,900	\$ 800,580
Accounts payable and accrued charges	35,919	41,177
Income taxes payable		11,507
Notes payable 90 days after demand, bearing interest at prime rate plus 1½%		
To shareholders	115,814	
To others	<u>10,270</u>	
Long-term debt (note 5)	1,264,713	200,370
Unearned income	55,919	723,301
Deferred income taxes	25,640	102,940
Minority interest in subsidiaries		21,804
Shareholders' equity:		
Share capital (notes 1 and 6) -		
Authorized:		
2,000,000 common shares without nominal or par value (maximum consideration \$5 per share)		
Issued:		
841,374 shares (1970 - 791,515)	1,812,311	
Surplus (statement 2)	<u>298,434</u>	2,110,745
	<u>\$3,927,920</u>	<u>\$3,732,705</u>

(ing notes)

PACIFIC ENTERPRISES LTD.AND SUBSIDIARY COMPANIESCONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 1971
 (with comparative figures for the year 1970)

	<u>1971</u>	<u>1970</u>
Earned surplus:		
Balance, beginning of year		
As previously reported	\$ 30,794	\$ 36,032
Provision for income tax		
re-assessment of prior period	_____	<u>5,500</u>
As restated	30,794	30,532
Net income (statement 3)	<u>118,221</u>	<u>49,009</u>
	149,015	79,541
Deduct dividends paid	<u>52,077</u>	<u>48,747</u>
Balance, end of year	96,938	30,794
Contributed surplus		
(no change and including		
capital surplus of \$123,004)	<u>201,496</u>	<u>201,496</u>
Surplus balance, end of year	<u>\$298,434</u>	<u>\$232,290</u>

(See accompanying notes)

PACIFIC ENTERPRISES LTD.AND SUBSIDIARY COMPANIESCONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 1971
 (with comparative figures for the year 1970)

	<u>1971</u>	<u>1970</u>
Income:		
Interest and finance charges	\$258,687	\$296,812
Dry cleaning		356,117
Rentals and other	<u>77,922</u>	<u>13,654</u>
	<u>336,609</u>	<u>666,583</u>
Expenses before the following (note 10)	104,152	130,670
Audit	8,660	7,625
Dry cleaning		302,759
Depreciation (note 3)	9,570	34,071
Interest - current	54,601	90,274
- long-term	53,049	19,485
Rental	<u>27,436</u>	<u> </u>
	<u>257,468</u>	<u>584,884</u>
	79,141	81,699
Income taxes	<u>31,428</u>	<u>37,592</u>
Income before extraordinary items	47,713	44,107
Extraordinary items (note 7)	<u>70,508</u>	<u>8,327</u>
	118,221	52,434
Minority interest	<u> </u>	<u>3,425</u>
Net income	<u>\$118,221</u>	<u>\$ 49,009</u>
Earnings per share (note 8):		
Income before extraordinary items	<u>.06</u>	<u>.05</u>
Net income	<u>.15</u>	<u>.06</u>

(See accompanying notes)

PACIFIC ENTERPRISES LTD.AND SUBSIDIARY COMPANIESCONSOLIDATED STATEMENT OF DECREASE IN CASH AND MARKETABLE SECURITIES

FOR THE YEAR ENDED SEPTEMBER 30, 1971
(with comparative figures for the year 1970)

	<u>1971</u>	<u>1970</u>
Balance of cash and marketable securities, beginning of year	\$ 254,014	\$331,215
Source of funds:		
Operations -		
Income before extraordinary items (statement 3)	47,713	44,107
Charges (credits) to income not resulting in an outlay (receipt) of funds:		
Depreciation	9,570	34,071
Increase (decrease) in allowance for doubtful accounts	(959)	19,367
Deferred income taxes	27,000	7,000
Decrease (increase) in unearned income	47,021	(31,020)
Other - net	<u>(4,574)</u>	<u>(3,379)</u>
Total funds from operations	125,771	70,146
Proceeds from:		
Reduction in accounts receivable - net	266,470	156,682
Sale of shares of former subsidiaries	209,251	
Mortgages on land and buildings	536,133	105,000
Issue of shares	<u>220,000</u>	
	1,611,639	663,043
Application of funds:		
Write down marketable securities from cost to market value	16,558	
Additions to deferred organization and development costs	113,476	72,321
Additions to fixed assets - net	823,946	73,999
Reduction in demand bank loan	500,580	
Reduction in other liabilities - net	17,438	53,992
Reduction in notes payable and long-term debt	69,013	129,554
Purchase of parent company shares by a subsidiary	6,426	26,176
Dividends paid	<u>52,077</u>	<u>52,987</u>
	<u>1,599,514</u>	<u>409,029</u>
Balance of cash and marketable securities, end of year	<u>\$ 12,125</u>	<u>\$254,014</u>

(See accompanying notes)

PACIFIC ENTERPRISES LTD.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1971

1. Accounting presentation

- a) The consolidated financial statements include the accounts of all subsidiary companies. Foreign subsidiaries have been translated into Canadian currency on the following basis:
 - Current assets and liabilities - current exchange rates
 - Non-current assets, long-term
debt and share capital - historical exchange rates
- b) During 1971 the company changed its accounting practice for computing depreciation as explained in note 3 below.
- c) Marketable securities, previously carried at cost, were written down to market value during the year. The decrease has been reflected as an extraordinary item on the income statement.
- d) The issued shares have been reduced by 26,082 shares held by a subsidiary and the paid up capital thereon by \$32,602, the cost of the shares to the subsidiary.
- e) Certain minor changes have been made in the comparative income figures for 1970 in order to conform the presentation with that followed in 1971.

2. Property held for development

Development of the project has been delayed pending the outcome of the litigation referred to in note 9 below. The recovery of the development costs related thereto is dependant upon completion of the project after which the costs will be charged to income over a reasonable period.

3. Fixed assets

In 1971 the company adopted the sinking fund method of providing depreciation on buildings. This method will charge the cost of the buildings to operations over periods of 40 years for concrete structures and 35 and 30 years for wooden structures. Depreciation charges in later years will be substantially higher than the amounts charged in earlier years as a result of annual instalments increasing at the rate of 5% compounded annually. Had this method not been used in 1971, the net income would have been \$27,000 less.

Other depreciation is computed on a declining balance method using rates of 20% and 30%.

Maximum capital cost allowance is claimed for income tax purposes and appropriate provision is made for deferred income taxes.

4. Bank indebtedness

The bank indebtedness is secured by assignment of receivables and consists of:

	<u>1971</u>	<u>1970</u>
Demand loans	\$300,000	\$800,580
Overdrafts	<u>8,900</u>	<u> </u>
	<u>\$308,900</u>	<u>\$800,580</u>

5. Long-term debt

	<u>1971</u>	<u>1970</u>
Secured by mortgages against the real estate of persons from whom the companies have outstanding mortgage loans or agreements receivable. Interest is payable at rates varying from 5% to 10 $\frac{3}{4}$ % per annum	\$ 193,049	\$222,265
Secured by land, buildings and equipment, and property held for development:		
Mortgages payable in monthly instalments of \$6,783, including interest at various rates	626,925	104,698
Agreement payable in monthly instalments of U.S. \$239, including interest at 7% per annum		13,738
Mortgage payable in monthly instalments of U.S. \$6,612, including interest at 11% per annum	<u>444,739(a)</u>	<u>382,600(a)</u>
	<u>\$1,264,713</u>	<u>\$723,301</u>

(a) The auditors of a Mexican subsidiary report that they did not receive confirmation of this amount which is owing to the vendors of the property who are the plaintiffs in the litigation referred to in note 9 below.

Instalments on long-term debt (excluding that portion of the \$193,049 which will be retired from the proceeds of outstanding mortgage loans and agreements receivable) due in each of the next five fiscal years ended

September 30 are:

1972 - \$107,000	1975 - \$55,000
1973 - 55,000	1976 - 62,000
1974 - 56,000	

6. Capital stock

During the year the company issued 55,000 common shares for \$220,000 cash and granted the purchasers an option to acquire an additional 55,000 common shares for \$220,000 cash at any time up to December 31, 1974.

7. Extraordinary items

Extraordinary items include:

	<u>1971</u>	<u>1970</u>
Gain on disposal of shares of former subsidiaries	\$ 91,640	
Exchange gain		\$8,327
Loss on disposal of marketable securities	(4,574)	
Write down of cost of marketable securities to market value at September 30, 1971	<u>(16,558)</u>	<u> </u>
	<u>\$ 70,508</u>	<u>\$8,327</u>

8. Earnings per share

Earnings per share have been calculated using the weighted average of shares outstanding during the year.

9. Contingencies

- a) The vendors of the property held for development commenced an action in November, 1970 under Mexican law demanding cancellation of contracts and agreements in connection with the acquisition of the land, return of the land and payment of approximately \$5,300,000 (64,000,000 Mexican pesos) to cover costs allegedly incurred on behalf of the company and loss of profits. In the opinion of the company's Mexican and Canadian legal counsel the claims are without grounds and consequently no provision has been made in the accounts for any loss which may arise out of the action.

Pacific Enterprises Ltd.

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The company has commenced an action against the vendors for damages for breaches of obligations contained in one of the aforementioned contracts in the amount of \$400,000 (4,880,000 Mexican pesos).

- b) The company is a defendant in a suit in which a claim is made for damages for alleged breach of contract. In the opinion of the company's legal counsel the suit is without merit and consequently no provision has been made in the accounts for any loss which may arise out of the suit.

10. Executive remuneration

Remuneration to directors and officers included \$440 (1970 - \$800) in Directors' fees and \$40,800 (1970 - \$61,800) in management salaries.

SUPERFINE

LINEA RECORD

MOON-HAG-CANADA

